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TALcorp Associates Limited 1977 Annual Report



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AUDITORS

Clarkson, Gordon & Co.

LEGAL COUNSEL

Tory, Tory, DesLauriers & Binnington

BANKERS

The Toronto-Dominion Bank
Bank of Montreal

EXCHANGE LISTINGS

The Toronto and Montreal
Stock Exchanges

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company, Toronto,
Montreal, Winnipeg, Regina, Vancouver

Annual Meeting

Library Room, Main Mezzanine
Royal York Hotel, Toronto
Friday, June 2, 1978
11.30 a.m.

Board of Directors/Officers

RICHARD W. BRISSENDEN

Vice-President and Treasurer
TALcorp Associates Limited

ROBERT W. KORTHALS

Executive Vice-President and
Chief General Manager
The Toronto-Dominion Bank

GEORGE H. MONTAGUE

Vice-President and Secretary
TALcorp Associates Limited

J. GARNET PINK

Partner
Tory, Tory, DesLauriers & Binnington

ROBERT SMITH

Chairman and President
TALcorp Associates Limited

JOHN A. TORY

President
The Thomson Corporation Limited

ROBERT SMITH

Chairman and President

GEORGE H. MONTAGUE

Vice-President and Secretary

RICHARD W. BRISSENDEN

Vice-President and Treasurer

J. PIERRE HURSCHLER

Comptroller

PATRICIA F. FREEDMAN

Assistant Secretary

1977 Highlights

FROM THE FINANCIAL STATEMENTS	1977	1976
Net (loss) earnings	\$ (2,312,000)	\$ 4,512,000
Dividends	\$ 551,000	\$ 754,000
Shareholders' equity (see note)	\$21,869,000	\$24,729,000
PER SHARE COMPARISONS		
(Loss) earnings before investment and extraordinary gains	\$(1.49)	\$.42
Net (loss) gain on disposal of investments	(.77)	1.27
Extraordinary gain	.48	.71
Net (loss) earnings	\$(1.78)	\$2.40
Dividends	\$.42½	\$.40
Shareholders' equity (see note)	\$16.88	\$19.09

Note: 1976 based on equity subsequent to purchase and cancellation of 604,745 shares in January 1977.

President's Report to the Shareholders

The Year in Review

I am far from happy with the 1977 results I am presenting to you in this report — the first disappointing performance since your Company was restructured into its present form in April 1971. However, the results (a loss of over \$2 million) are not as bad as they may seem at first glance, the reasons for which I discuss below. Furthermore, there has been no serious impairment of the basic underlying net asset value of your Company which in your management's opinion is now approximately \$18.00 per share compared with a book value of \$16.88 per share. Your Company is an investment holding and management company — not an operating company — and consequently must expect considerable fluctuations in its earnings depending on when and for how much various investments are sold.

Three situations were mainly responsible for the net loss of \$2,312,000 incurred in 1977:

1. Your Company's share of the \$4,285,000 loss incurred by our 63% owned subsidiary, Alliance Building Corporation Limited, was \$2,669,000. However, included in Alliance's losses are write-downs of approximately \$6.5 million (\$3.4 million after taxes) in the carrying value of certain land and buildings.
2. Although it took these substantial write-downs in 1977, in the opinion of management the underlying value of Alliance is still higher than previously reported book value because the value of its other land and buildings is in excess of their carrying value — this opinion has been confirmed by a recent appraisal of Alliance's entire real estate property portfolio by an independent real estate appraisal firm. However, under the appropriate accounting rules, although properties not considered to be worth their carrying value have to be written down, properties worth more than their carrying value may not be written up. This obviously gives a most conservative balance sheet presentation. We are of the opinion that Alliance improved its position in 1977 and its management must be complimented for their efforts and particularly for their achievement in clearing up many of the onerous joint venture arrangements with third parties.
2. We wrote off our investment in Immobilia Inc., our 76% owned Montreal real estate subsidiary, the net loss being \$1,009,000. The poor real estate market in Quebec, which results mainly from the political and economic situation in that province, continued to affect Immobilia during 1977. Vacancies in its large residential rental project in Pointe Claire escalated and it was unable to sell any of its real estate holdings. The resulting cash flow difficulties became severe and projections indicated that, in order to stay solvent, Immobilia

required substantial additional funds over the next two years. However, in your management's view there would have been little hope of recovering our original investment or, indeed, any incremental investment. Immobilia's inability to finance its ongoing operations will result in the loss of its equity in its real estate assets and the loss of any value which may be attributable to its shares.

3. We wrote off a \$400,000 advance made in January of last year to Bad Boy Appliances and Furniture Limited.

Bad Boy obviously needs further explanation. We purchased a 30% interest in this very high profile company in November 1976 for \$1,853,000 in association with D.B. Diversified Limited (our partner in the Barrymore Carpet venture) which also bought a 30% interest. D.B. Diversified (controlled by Messrs. Jerry Van and Jerry Piltzmaker) also owns the highly successful Factory Carpet Outlet chain of retail carpet stores.

Bad Boy's operating problems proved to be much greater than were expected when we acquired the investment and weak retail market conditions, particularly for appliances and furniture, continued to prevail during 1977. Faced with this environment, Bad Boy's new major shareholders were unable to complete the management reorganization and related cost reductions before the company lost the confidence of its major creditors and a receiving order under the Bankruptcy Act was made against it on August 18, 1977.

Major suppliers were reluctant to give further support to Bad Boy and the receiver therefore commenced the liquidation of the company. There will be no funds available for shareholders.

The Bad Boy investment opportunity was brought to TALcorp by D.B. Diversified Limited, and TALcorp and D.B. Diversified agreed to make the investment on certain terms as set out in a Memorandum of Understanding, one of which gave TALcorp the right to sell its holdings in Bad Boy in 1979 to D.B. Diversified for \$2,400,000, payable over five years, if certain profit targets for Bad Boy were not achieved. This right was previously in dispute but TALcorp and D.B. Diversified have now negotiated a satisfactory arrangement under which D.B. Diversified has agreed to purchase TALcorp's Bad Boy shares in exchange for \$1,600,000 of cumulative redeemable preferred shares of D.B. Diversified (with a dividend rate of one-half the prime bank rate plus 1½ %). TALcorp will also receive a \$400,000 preferential distribution out of profits of Barrymore Carpet Inc., if Barrymore achieves certain profit levels for the five year period ending December 31, 1981.

In addition, TALcorp has agreed to accept a further \$900,000 of D.B. Diversified cumulative redeemable preferred shares, redeemable in 1981, 1982 and 1983 in satisfaction of a loan of that amount made by TALcorp to D.B. Diversified at the time of the Bad Boy acquisition.

On a positive note, in 1977:

1. Barrymore Carpet Inc. (in its first full year of operations since we acquired this investment and its operations and management were restructured) had a very successful year with sales of nearly \$19 million and net income of \$525,000 (after providing for a loss of \$225,000 in respect of amounts owed to it by Bad Boy). We are very encouraged by this result because Barrymore was in receivership when we and D.B. Diversified made our investment in April 1976, having lost \$5 million over the previous five years. Its new management are to be congratulated for their efforts.
2. We had a successful year with respect to our stock market activities. The capital appreciation, based on average carrying value, on our trading securities and quoted portfolio investments was 38% and 14% respectively. An indication of the success is that The Toronto Stock Exchange index increased 4.8% and the Dow Jones index decreased 17.3% during this period. The market value of trading securities and quoted portfolio investments amounted to \$2,106,000 and \$3,249,000 respectively at year end.

As a result of the above-mentioned developments and the payment of dividends totalling 42.5c per share, the book value per share decreased 12% during the year from \$19.09 to \$16.88. As I have often stated, the build-up of assets per share has always been the main objective of your Company and, notwithstanding this decrease in 1977, shareholders' equity per share from the end of 1971, the year in which TALcorp became an investment and holding company, has increased from \$2.72 to \$16.88, an increase of over 500%. Although not directly comparable, The Toronto Stock Exchange and the Dow Jones indices showed a 7.0% increase and 6.6% decline respectively over the same period. In addition, dividends have been paid at increasing rates in each of these years and the half-yearly rate was increased to 22.5c per share in September 1977.

Management

During the year Mr. J. Pearce Bunting resigned as a director of your Company upon taking up the appointment of President of The Toronto Stock Exchange — in this capacity he is not permitted to have directorships in listed companies. Mr. Bunting joined the Board in 1971 and made a very valuable contribution to the success of the Company over the succeeding years. We will miss his advice and counsel but wish him every good fortune in his important new position. We welcome to the Board Mr. Richard Brissenden, Vice-President and Treasurer of your Company, who has been appointed in Mr. Bunting's place.

1977 Financial Performance

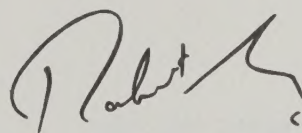
The table below sets out the key indicators of the Company's financial position.

(in thousands of dollars)	1977	1976
Financial income	\$ 1,036	\$ 1,189
Equity (loss) earnings	(1,592)	445
	<u>\$ (556)</u>	<u>\$ 1,634</u>
(Loss) earnings before investment and extraordinary gains	\$(1,934)	\$ 794
Per share	(1.49)	.42
Net (loss) earnings for the year	\$(2,312)	\$ 4,512
Per share	(1.78)	2.40
Shareholders' equity at book value (1976 based on equity subsequent to purchase and cancellation of 604,745 shares in January 1977) ..	\$21,869	\$24,729
Per share	16.88	19.09

Future Prospects

As I know from last year's unsuccessful effort to predict 1977 results, it is not easy to be prophetic; however, despite the problems encountered during 1977 and the resulting effect on the financial results, we remain in an extremely strong financial position with virtually no debt and a substantial portfolio of marketable listed investments.

We are continually reviewing investment prospects and are in an excellent position to take advantage of good opportunities that may arise. We are confident that our continuing search for these opportunities will prove fruitful and that our objective of increasing net assets per share will continue to be achieved.



ROBERT SMITH
Chairman and President

Seven Year Financial Review

<i>(in thousands of dollars)</i>	1977	1976	1975	1974	1973	1972	1971
	(note 1)	(note 1)	(note 1)				
Earnings (loss) before investment and extraordinary gains	\$ (1,934)	\$ 794	\$ 1,561	\$ 2,943	\$ 2,412	\$ 1,354	\$ 107
Per share	(1.49)	.42	.67	.79	.65	.41	.11
Net gain (loss) on disposal of investments	\$ (998)	\$ 2,379	\$ 1,892	\$ 205	\$ 1,111	\$ 3,730	\$ 26
Per share	(.77)	1.27	.81	.05	.30	1.12	.03
Extraordinary gain	\$ 620	\$ 1,339	\$ 4,456	\$ 1,002	—	—	—
Per share	.48	.71	1.91	.27	—	—	—
Net earnings (loss) for the year	\$ (2,312)	\$ 4,512	\$ 7,908	\$ 4,150	\$ 3,523	\$ 5,084	\$ 133
Per share	(1.78)	2.40	3.39	1.11	.95	1.53	.14
Cash dividends paid	\$ 551	\$ 754	\$ 933	\$ 932	\$ 559	\$ 186	—
Per share	.42½	.40	.35	.25	.15	.05	—
Shareholders' equity (note 2) at book value	\$21,869	\$24,729	\$28,083	\$33,541	\$30,561	\$26,583	\$4,612
Per share	16.88	19.09	15.03	9.00	8.20	7.13	2.72
Common shares (adjusted for sub-division and conversions):							
Weighted average	1,295	1,876	2,333	3,728	3,728	3,332	941
Outstanding at end of year (note 2)	1,296	1,295	1,868	3,728	3,728	3,728	1,693
Price range on TSE:							
High	\$ 12.63	\$ 11.75	\$ 9.75	\$ 8.25	\$ 19.50	\$ 18.75	\$ 7.00
Low	\$ 8.00	\$ 7.00	\$ 4.30	\$ 3.40	\$ 7.00	\$ 6.13	\$ 1.45

Notes:

1. Per share figures for 1975, 1976 and 1977 reflect the deduction of 1,860,000 shares of the Company held by its subsidiary, Toronto and London Investment Company Ltd.
2. 1976 based on equity subsequent to purchase and cancellation of 604,745 shares in January 1977.

Review of Major Investments

Mid-Continent Property Group Limited

During 1977, this wholly-owned property investment subsidiary continued its policy of disposing of its investments. The shopping centres in Brantford and Chatham (Ontario) were sold in 1977 and an agreement has recently been entered into for the sale of the remaining small shopping centre in Winnipeg (Manitoba).

Mid-Continent now holds the investment in Alliance Building Corporation Limited and a portfolio of mortgages receivable.

Alliance Building Corporation Limited

Alliance is engaged, through subsidiaries, joint ventures and partnerships with others, in the development of revenue producing properties, construction and sale of residential, industrial and commercial properties and land banking operations, mainly in the Toronto area.

Alliance's recently announced financial results for the year ended December 31, 1977, showed a net loss of \$4,284,767 (\$2.00 per share) compared with net earnings of \$311,736 (15c per share) in 1976. Negative cash flow was \$3.3 million compared with a positive cash flow of \$1.3 million in 1976. The 1977 results include write-downs of certain properties where carrying values exceed estimated realizable values totalling \$6.5 million before tax.

It is important to note that Alliance has a valuation surplus attributable to the balance of land held for development and revenue producing properties which more than compensates for these write-downs and is not reflected in its financial statements. This valuation surplus has been confirmed by a recent independent appraisal of Alliance's entire real estate property portfolio.

The programme, begun in May 1974, of selling non-essential real estate holdings to reduce the company's excessively high debt structure was continued during 1977 but was hampered by a weak real estate market. Also in 1977 Alliance successfully negotiated, on favourable terms, the termination or restructuring of six of its joint ventures, of which five were with non-funding partners, and the acquisition of the 25% minority interest in Duffins Creek Estates Limited, a major subsidiary.

The King Square industrial building is now substantially leased but the Oakdale Professional Building is still not leased to a breakeven point. However, Alliance's stability was improved during 1977 and its management remains confident that the potential of this company will begin to be realized during 1978.

Barrymore Carpet Inc.

Barrymore is an old established company with operations dating back to 1891. It produces a wide range of carpet products which are distributed under its own Barrymore name and other private labels. A wholly-owned subsidiary manufactures high quality home and office furniture which is also distributed under the Barrymore name.

In April 1976 your Company and D.B. Diversified Limited (a large and successful retailer of carpet products) each acquired a half interest in the outstanding shares of Barrymore, subsequent to the filing by its unsecured creditors of proposals under the Bankruptcy Act. The management, manufacturing operations, product lines and distribution methods of the company's carpet business were all restructured following the acquisition and the 1977 results demonstrate the success of this restructuring. Consolidated sales totalled \$18,900,000 and net income for the year was \$525,000 (after allowing for a loss of \$225,000 in respect of an amount owed by Bad Boy Appliances and Furniture Limited). 1978 projections indicate another significant improvement in earnings.

The Barrymore furniture operations with sales in 1977 of \$3.0 million remain sound and profitable.

Auditors' Report

**To the Shareholders of
TALcorp Associates Limited:**

We have examined the consolidated balance sheet of TALcorp Associates Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in investments for the year then ended. For TALcorp Associates Limited, its consolidated subsidiaries, and for those other companies of which we are the auditors and which are accounted for by the equity method in these consolidated financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its investments for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, May 11, 1978. Clarkson, Gordon & Co.
Chartered Accountants

Consolidated Balance Sheet

DECEMBER 31, 1977
(with comparative figures at December 31, 1976)

ASSETS	1977	1976
Investments (note 2):		
Associated companies —		
Quoted shares, at equity		\$ 1,852,955
Unquoted shares, at equity	\$ 1,078,978	878,881
Notes receivable, at cost	115,659	115,659
	<u>1,194,637</u>	<u>2,847,495</u>
Unconsolidated subsidiary companies —		
Unquoted shares, at equity	10,776,428	13,095,552
Portfolio —		
Quoted securities, at the lower of cost and market	2,805,976	4,091,010
Unquoted shares, at the lower of cost and estimated realizable value (note 2(b))	2,479,137	826,231
	<u>5,285,113</u>	<u>4,917,241</u>
Total investments	17,256,178	20,860,288
Trading securities, at the lower of cost and market (note 2(c))	1,839,310	850,375
Cash and short-term deposits	1,416,463	7,919,183
Short-term advances to related companies		816,990
Notes and accounts receivable	1,381,735	1,441,837
Deferred income taxes	849,599	514,800
Other	173,887	193,444
	<u><u>\$22,917,172</u></u>	<u><u>\$32,596,917</u></u>

(See accompanying notes to consolidated financial statements)

LIABILITIES	1977	1976
Accounts payable and accrued charges	\$ 586,104	\$ 479,102
Short-term advances from related companies	462,106	
Total liabilities	<u>1,048,210</u>	<u>479,102</u>
SHAREHOLDERS' EQUITY (note 3)		
Share capital	12,149,706	14,476,054
Contributed surplus	4,434,735	5,284,674
Retained earnings	17,721,602	24,794,168
	<u>34,306,043</u>	<u>44,554,896</u>
Less the carrying amount of the Company's shares held by a consolidated subsidiary	<u>12,437,081</u>	<u>12,437,081</u>
Total shareholders' equity	<u>21,868,962</u>	<u>32,117,815</u>
	<u>\$22,917,172</u>	<u>\$32,596,917</u>

On behalf of the Board:

ROBERT SMITH, Director

GEORGE H. MONTAGUE, Director

Consolidated Statement of Earnings

YEAR ENDED DECEMBER 31, 1977
(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Financial income including interest, fees, trading gains and dividends	<u>\$ 1,036,629</u>	<u>\$1,189,159</u>
Equity in net (loss) earnings, before extraordinary gain, of associated and unconsolidated subsidiary companies involved in:		
Industrial activities	262,596	794,249
Real estate activities	<u>(1,854,842)</u>	<u>(349,903)</u>
	<u>(1,592,246)</u>	444,346
	(555,617)	1,633,505
Expenses (note 4)	<u>1,378,322</u>	<u>839,583</u>
(Loss) earnings before net gain on disposal of investments and extraordinary gain	(1,933,939)	793,922
Net (loss) gain on disposal of investments (note 2(e))	(997,897)	2,379,385
Extraordinary gain representing net profit on disposal of investment properties by unconsolidated real estate subsidiary	<u>619,943</u>	<u>1,339,004</u>
Net (loss) earnings for the year	<u><u>\$ (2,311,893)</u></u>	<u><u>\$4,512,311</u></u>
(Loss) earnings per share		
(Loss) earnings before net gain on disposal of investments and extraordinary gain	\$(1.49)	\$.42
Net (loss) gain on disposal of investments	(.77)	1.27
Extraordinary gain	<u>.48</u>	<u>.71</u>
Total for the year	<u><u>\$(1.78)</u></u>	<u><u>\$2.40</u></u>

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Retained Earnings and Contributed Surplus

YEAR ENDED DECEMBER 31, 1977
(with comparative figures for 1976)

STATEMENT OF RETAINED EARNINGS	1977	1976
Balance at beginning of year	\$24,794,168	\$21,035,575
Amount applicable to shares purchased for cancellation (note 3)	(4,210,136)	
	20,584,032	21,035,575
Net (loss) earnings for the year	(2,311,893)	4,512,311
	18,272,139	25,547,886
Dividends	(550,537)	(753,718)
Balance at end of year	<u>\$17,721,602</u>	<u>\$24,794,168</u>
STATEMENT OF CONTRIBUTED SURPLUS		
Balance at beginning of year	\$5,284,674	\$5,284,674
Amount applicable to shares purchased for cancellation (note 3)	(849,939)	
Balance at end of year	<u>\$4,434,735</u>	<u>\$5,284,674</u>

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Changes in Investments

YEAR ENDED DECEMBER 31, 1977
(with comparative figures for 1976)

	<u>1977</u>	<u>1976</u>
Source of investment funds		
(Loss) earnings from operations	\$ (1,933,939)	\$ 793,922
Equity in net (loss) earnings, before extraordinary gain, of associated and unconsolidated subsidiary companies net of capital gains tax	<u>(1,657,895)</u>	<u>582,607</u>
	(276,044)	211,315
Decrease in cash and short-term deposits	6,502,720	
Proceeds on disposal of investments	1,907,792	10,616,706
Decrease in short-term advances to related companies	1,279,096	254,411
Decrease in notes and accounts receivable	60,102	
Miscellaneous (net)	140,534	261,966
Decrease in trading securities		809,871
Dividends from associated and unconsolidated subsidiary companies		175,500
	<u>9,614,200</u>	<u>12,329,769</u>
Deduct:		
Redemption of issued share capital	7,388,343	
Increase in trading securities	988,935	
Dividends paid	550,537	753,718
Increase in deferred income taxes	334,799	
Increase in cash and short-term deposits		3,468,900
Decrease in accounts payable		1,412,459
Decrease in income taxes payable		1,029,512
Increase in notes and accounts receivable		643,922
	<u>9,262,614</u>	<u>7,308,511</u>
Funds used for investments	351,586	5,021,258
Investments at beginning of year	20,860,288	22,295,955
Add (deduct):		
Equity in net (loss) earnings of associated and unconsolidated subsidiary companies less dividends received	(1,037,952)	1,746,111
Carrying amount of investments disposed of	(2,838,572)	(8,835,364)
(Provision for) recovery of decline in market value of investment portfolio	(79,172)	632,328
Investments at end of year	<u>\$17,256,178</u>	<u>\$20,860,288</u>

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

DECEMBER 31, 1977

1. BUSINESS OF THE COMPANY AND ACCOUNTING POLICIES

TALcorp Associates Limited is an investment and holding company and its directors have determined at a meeting of directors, and recorded in the minutes of such meeting, that the foregoing is the only class of business conducted by it. Its wholly-owned financial subsidiaries conduct a financial and management services business and a securities trading operation. For financial statement purposes, this group of companies is herein called the "Company". The Company holds interests in a number of long-term investments and trading securities which are described as follows:

Associated companies — companies 50% or less owned which are operated autonomously and in which the Company has significant influence.

Unconsolidated subsidiaries — companies more than 50% owned but which are operated autonomously and whose business operations are not primarily of a financial nature.

Portfolio investments — investments in quoted and unquoted equity and debt securities of companies less than 50% owned in which the Company exerts no significant influence.

Trading securities — quoted and unquoted securities purchased with the intention of holding them for the short term.

BASIS OF PRESENTATION of the financial statements of the Company and the above investments is summarized as follows. The accounts of TALcorp Associates Limited are consolidated with its financial subsidiaries only. Investments in associated companies and unconsolidated subsidiaries are accounted for by the equity method whereby the investments are initially recorded at cost and carrying amounts are adjusted to recognize the Company's share of earnings or losses and capital transactions since acquisition and reduced by dividends received. Capital gains taxes are accrued on adjustments to investments accounted for by the

equity method; the carrying amounts of such investments are reduced by the capital gains tax accruals; the provisions with respect to equity earnings or losses are included with income tax expense while capital transactions are reflected net of such provisions.

Additional financial information with respect to these investments is provided in the notes to the financial statements. All significant inter-company transactions are eliminated. Since the Company's business is primarily investment holding and accordingly financial in nature, the basis of presentation outlined above is considered to be more informative than a full consolidation incorporating the non-financial subsidiaries.

Quoted portfolio investments and trading securities are carried at the lower of average cost and market as determined by comparing the aggregate cost of each category with its respective aggregate market value. Prior years' provisions for decline in market value which are no longer required are returned to income. Market values are based on the last reported sale or closing bid price on security exchanges or over-the-counter markets.

The aggregate market value of quoted investments by category is detailed in the notes to the financial statements. Unquoted portfolio investments are carried at the lower of cost and estimated realizable value.

ACQUISITIONS OF INVESTMENTS have been recorded on the purchase basis of accounting. The difference, if any, between the purchase price of an acquisition and the acquired interest in net tangible assets at estimated fair value will be amortized to earnings over a reasonable period of time.

EARNINGS PER SHARE are computed on the basis of the weighted average number of shares outstanding in each year after deducting the shares of the Company held by a wholly-owned subsidiary.

2. INVESTMENTS

(a) Analysis of investment in shares of associated and unconsolidated subsidiary companies:

	1977		1976
	Approximate Equity Interest %	Carrying Amount at Equity	Carrying Amount at Equity
Associated companies —			
Quoted shares:			
Bad Boy Appliances and Furniture Limited			\$ 1,852,955
Unquoted shares:			
Barrymore Carpet Inc.	50	\$ 1,078,978	\$ 878,881
Unconsolidated subsidiary companies —			
Unquoted shares:			
Mid-Continent Property Group Limited	100	\$10,776,428	\$12,011,327
Immobilia Inc.			1,084,225
		<u>\$10,776,428</u>	<u>\$13,095,552</u>

(b) The Company's investment in Bad Boy Appliances and Furniture Limited was shown in "Associated companies — Quoted shares" at December 31, 1976. In August 1977 a receiving order under the Bankruptcy Act was made against Bad Boy and its shares are no longer publicly traded. As part of the agreement under which the Company and D.B. Diversified Limited acquired their interest in Bad Boy, the Company had the right to sell its holdings in Bad Boy to D.B. Diversified for \$2,400,000 in 1979, payable over five years, if certain profit objectives of Bad Boy were not achieved. In May 1978 as full settlement of this right the Company agreed to accept \$1,600,000 cumulative redeemable preferred shares of D.B. Diversified with a dividend rate of one-half the prime bank rate plus 1½% and a class of special shares of Barrymore Carpet Inc. (jointly owned by the Company and D.B. Diversified) entitling the Company to a \$400,000 preferential distribution out of profits of Barrymore Carpet, if Barrymore Carpet achieves certain profit levels for the five year period ending December 31, 1981. Pending completion of this settlement, the investment in Bad Boy has been included in "Portfolio investments — Unquoted shares" on the balance sheet at its original cost of \$1,852,955.

(c) Market values of quoted investments and trading securities:

	December 31, 1977		December 31, 1976	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Associated companies, quoted shares			\$1,852,955	\$1,860,000
Quoted portfolio securities	\$2,805,976	\$3,249,000	4,091,010	4,117,000
Trading securities	1,839,310	2,106,000	850,375	862,000

The market values of the Company's investments do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations.

(d) Analysis of earnings, before extraordinary gain, from investments:

	Financial Income	Equity Earnings	Total of Financial Income and Equity Earnings	Disposal of Investments
Associated companies	\$ 10,647	\$ 262,596	\$ 273,243	
Unconsolidated subsidiaries	348,770	(1,854,842)	(1,506,072)	\$ (1,009,321)
Portfolio investments	169,679		169,679	11,424
Other sources, including interest	507,533		507,533	
Total	<u>\$1,036,629</u>	<u>\$ (1,592,246)</u>	<u>\$ (555,617)</u>	<u>\$ (997,897)</u>

(e) Analysis of net (loss) gain on disposal of investments:

	1977	1976
Proceeds on disposal	\$1,907,792	\$10,616,706
Deduct:		
Carrying amount of investments disposed of	2,838,572	8,835,364
Taxes on excess of proceeds over carrying amount	7,945	121,285
Provision for (recovery of) decline in market value of investment portfolio (net of income tax recovery of \$20,000; 1976 — \$87,000)	59,172	(719,328)
	<u>2,905,689</u>	<u>8,237,321</u>
Net (loss) gain on disposal of investments	<u>\$ (997,897)</u>	<u>\$ 2,379,385</u>

(f) The following is a comparative summary of financial data extracted from the accounts of Mid-Continent Property Group Limited, the only unconsolidated subsidiary company held at December 31, 1977:

SUMMARIZED BALANCE SHEET

	1977	1976
Cash and accounts receivable	\$ 1,888,000	\$ 4,555,000
Mortgages and loans receivable	18,084,000	22,003,000
Investment in real estate —		
Revenue producing properties	24,306,000	29,360,000
Real estate under construction	2,589,000	4,864,000
Land held for development or sale	33,357,000	42,150,000
Other assets	892,000	1,769,000
	<u>81,116,000</u>	<u>104,701,000</u>
Bank indebtedness	22,260,000	20,236,000
Accounts payable	4,694,000	7,739,000
Long-term debt	37,866,000	52,281,000
Deferred income taxes	4,092,000	7,890,000
Minority interest	2,248,000	4,860,000
	<u>71,160,000</u>	<u>93,006,000</u>
Shareholders' equity	<u>\$ 9,956,000</u>	<u>\$11,695,000</u>

SUMMARIZED INCOME STATEMENT

Gross revenue	\$16,760,000	\$24,600,000
Earnings before the following	<u>\$ 3,268,000</u>	<u>\$ 4,252,000</u>
Deduct:		
Write-down in carrying value of real estate holdings and current year's carrying costs	6,538,000	296,000
Interest on long-term debt	2,319,000	2,801,000
Depreciation and amortization	435,000	417,000
Income taxes	(3,502,000)	532,000
	<u>5,790,000</u>	<u>4,046,000</u>
Net (loss) earnings before extraordinary gains	<u>\$ (2,522,000)</u>	<u>\$ 206,000</u>
Extraordinary gains (net of income taxes — \$38,000; 1976 — \$210,000)	<u>\$ 783,000</u>	<u>\$ 1,752,000</u>

Notes:

(i) The accounts of Mid-Continent Property Group Limited include the accounts of Alliance Building Corporation Limited. The total investment in Alliance, including the Company's share of earnings and capital transactions less dividends received since acquisition, is \$8,671,000. Current market value of the investment in Alliance, which does not necessarily represent the value of the holding, is \$7,984,000 at December 31, 1977.

(ii) Mid-Continent Property Group and Alliance follow generally accepted accounting principles and their accounting policies and standards of financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

3. SHARE CAPITAL

(a) In January 1977, 604,745 Class A and Class B shares of the Company were purchased for cancellation at a price of \$12 cash per share pursuant to a tender offer to shareholders made in December 1976. The effect of this transaction was to reduce the Company's short-term deposits and shareholders' equity by \$7,388,343 and the number of shares outstanding to 1,295,381, after deducting the 1,860,000 Class C shares of the Company held by its 100% owned subsidiary, Toronto and London Investment Company Ltd. The cost of the shares purchased (including expenses) was allocated to shareholders' equity as follows:

Share capital	\$2,328,268
Contributed surplus	849,939
Retained earnings	4,210,136
	<u>\$7,388,343</u>

The Class A, Class B and Class C shares are inter-convertible on a one for one basis. A summary of the Company's share capital is as follows:

	<u>1977</u>	<u>1976</u>
Authorized:		
Under the Articles of Continuance there is no restriction on the maximum number of shares that the Company is authorized to issue.		
Issued:		
1,295,621 Class A convertible common shares and Class B convertible common shares (1976 — 1,900,126 shares)	\$ 4,988,402	\$ 7,314,750
1,860,000 Class C convertible non-voting participating shares	<u>7,161,304</u>	<u>7,161,304</u>
	<u>\$12,149,706</u>	<u>\$14,476,054</u>

Dividends paid on the Class A shares and Class C shares are normal taxable dividends, whereas dividends on the Class B shares may be paid out of 1971 capital surplus on hand at the option of the Board of Directors.

(b) The Company has reserved 68,100 Class A shares for its Key Employee Stock Option Plan. Options granted under the Plan may be exercised on a cumulative basis at 20% per annum, commencing one year subsequent to the date of grant, and expire six years subsequent to such date. On December 28, 1977, options to acquire 240 of the above shares were exercised for a cash consideration of \$1,920.

Options outstanding at December 31, 1977, are as follows:

<u>Year</u> <u>Granted</u>	<u>Option</u> <u>Price</u>	<u>Outstanding</u> <u>December 31, 1977</u>
1972	\$9.00	1,700
1973	9.00	7,000
1975	9.00	880
1975	8.00	11,680
1977	9.25	5,700
		<u>26,960</u>

Of the outstanding options, 19,800 are held by directors and officers.

4. INTEREST, DEPRECIATION, PROVISION FOR LOSS AND INCOME TAXES

Expenses include the following:

	<u>1977</u>	<u>1976</u>
Interest	\$ 9,000	\$ 18,000
Depreciation	27,000	31,000
Provision for loss on note receivable from Bad Boy Appliances and Furniture Limited	400,000	
Income tax expense (recoveries):		
On operating earnings	(162,000)	(65,000)
On equity adjustments	66,000	(138,000)

5. REMUNERATION OF DIRECTORS AND OFFICERS

Aggregate remuneration paid to directors and officers of the Company as defined in The Securities Act (Ontario) was as follows:

	<u>1977</u>	<u>1976</u>
Remuneration as directors and senior officers	\$316,800	\$365,500
Remuneration of a director by an unconsolidated subsidiary of the Company	2,500	2,500

6. ANTI-INFLATION LEGISLATION

The Company is subject to the dividend restriction provisions of the Anti-Inflation Act and Regulations. Dividends to the Company's shareholders for the twelve month period ending October 13, 1978, may not, without prior approval, exceed 59c per share.

7. LITIGATION

In an action commenced in May 1975 in the Supreme Court of Ontario by Mr. David Satok, the registered owner of 100 shares of the Company, it is alleged that the purchase of shares in Toronto and London Investment Company Ltd. by the Company in 1975 was invalid and that the transaction should be set aside. The Company is defending the action and, having regard to the advice of its legal counsel, is confident that the action will not succeed.

File



TALCORP ASSOCIATES LIMITED
INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 1977

TALCORP ASSOCIATES

INTERIM REPORT

FOR THE SIX MO

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

CONSOLIDATED STATEMENT OF CHANGES IN INVESTMENTS

ENDED JUNE 30, 1977 (UNAUDITED)

	1977	1976
Financial income including interest, fees, trading gains and dividends	\$ 470,828	\$ 805,285
Equity in net (loss) earnings, before extraordinary gain, of associated and unconsolidated subsidiary companies	(872,000)	415,000
	(401,172)	1,220,285
Expenses (after \$202,000 income tax recovery; 1976 - \$193,000 income taxes)	330,987	758,598
(Loss) earnings before net gain on disposal of investments and extraordinary gain	(732,159)	461,687
Net gain on disposal of investments (after \$47,000 income taxes; 1976 - \$125,000 income tax recovery)	313,092	188,746
Extraordinary gain representing net profit on disposal of investment properties by unconsolidated real estate subsidiary	572,000	—
Net earnings for the period	152,933	650,433
Retained earnings at beginning of period.	24,794,168	21,035,575
	24,947,101	21,686,008
Allocated portion of cost of shares purchased for cancellation	(4,210,136)	—
Dividends	(259,076)	(373,693)
Retained earnings at end of period	<u>\$ 20,477,889</u>	<u>\$ 21,312,315</u>
Earnings per share		
(Loss) earnings before net gain on disposal of investments and extraordinary gain	\$ (.56)	\$.25
Net gain on disposal of investments.	.24	.10
Extraordinary gain	.44	—
Total for the period.	<u>\$.12</u>	<u>\$.35</u>
Weighted average number of shares outstanding during the period after deducting the shares held by a wholly-owned subsidiary	<u>1,295,381</u>	<u>1,868,466</u>

Sources of investment funds		
(Loss) earnings from operations.	\$ (732,159)	\$ 461,687
Less equity in net (loss) earnings, before extraordinary gain, of associated and unconsolidated subsidiary companies net of provision for capital gains tax.	(715,000)	358,000
	(17,159)	103,687
Decrease in cash and short-term deposits.	7,313,706	3,833,553
Proceeds on disposal of investments	1,750,078	373,133
Decrease in notes and accounts receivable	196,320	—
Decrease in trading securities	—	860,239
Repayment of short-term advances to related companies	—	540,280
Dividend from associated company	—	175,500
	<u>9,242,945</u>	<u>5,886,392</u>
Deduct:		
Cost of shares purchased for cancellation	7,388,343	—
Increase in short-term advances to related companies	917,171	—
Increase in trading securities.	337,848	—
Dividends paid.	259,076	373,693
Decrease in income taxes payable.	48,146	1,324,844
Decrease in accounts payable	27,386	1,375,910
Miscellaneous (net)	31,598	12,609
	<u>9,009,568</u>	<u>3,087,056</u>
Funds used for investments	233,377	2,799,336
Investments at beginning of period	20,860,288	22,295,955
Add (deduct):		
Equity in net earnings of associated and unconsolidated subsidiary companies less dividends received. . . .	(143,000)	182,500
Carrying amount of investments sold.	(1,630,810)	(250,337)
Decrease (increase) in provision for decline in market value of investment portfolio.	241,000	(59,000)
Investments at end of period	<u>\$ 19,560,855</u>	<u>\$ 24,968,454</u>

PRESIDENT'S REPORT

TO THE SHAREHOLDERS

Interim Results

Consolidated net earnings for the six months ended June 30, 1977 were \$152,933 (12¢ per share) compared with \$650,433 (35¢ per share) for the same period in 1976. These earnings do not reflect any provision which may be required with respect to the Company's investment in Bad Boy Appliances and Furniture Limited which recently announced that a receiving order under the Bankruptcy Act was made against them. Talcorp cannot yet determine the effect, if any, that this action will have on its financial results. At June 30, 1977, Talcorp's investment in Bad Boy was carried at approximately \$1,444,000 and in addition, it had an unsecured advance to them in the amount of \$400,000.

Net loss before net gain on disposal of investments and extraordinary gain was \$732,159 (56¢ per share) compared with earnings of \$461,687 (25¢ per share) in 1976. The 1977 operating loss resulted mainly from the Company's share of losses incurred by Bad Boy Appliances and Furniture Limited, Alliance Building Corporation Limited and Immobilia Inc. which are accounted for by the equity method. The 1976 results include the Company's equity in the earnings of C.F. Haughton, Redlaw Enterprises and Venus Esterbrook, which investments were sold in the second half of 1976.

Net gain on disposal of investments was \$313,092 (24¢ per share) compared to \$188,746 (10¢ per share) in 1976. By their nature, investment gains will fluctuate from year to year, depending upon when major positions are sold.

An extraordinary gain of \$572,000 (44¢ per share) was realized from the sale by the Company's wholly-owned subsidiary, Mid-Continent Property Group Limited, of two of its three remaining shopping centres. There was no corresponding item in the previous period.

Asset Value

Shareholders' equity at book value was \$19.01 per share at June 30, 1977, compared with \$19.09 at December 31, 1976. These figures are based on 1,295,381 shares outstanding after giving effect to both the deduction of 1,860,000 Class C shares held by a wholly-owned subsidiary and the January 1977 purchase for cancellation of 604,745 shares of the Company and, as mentioned above, are before any provision which may be required for the Company's investment in Bad Boy. The decrease in shareholders' equity per share during this period is the net result of the above noted earnings for the six months ended June 30, 1977 less the payment of the Company's 20¢ semi-annual dividend in March 1977.

Review of Major Investments

Alliance Building Corporation Limited (62% owned)

During 1977 Alliance has continued its policy of rationalizing its real estate holdings and its position with joint venture partners. The present weak market conditions continue to affect land sales but on a positive note Alliance has now leased substantially all of its 300,000 sq. ft. King Square commercial

building, previously a major problem. The company reported a loss of approximately \$560,000 for the six months ended June 30, 1977. Alliance's management anticipates that it will begin to realize some of the potential of its assets during 1978.

Immobilia Inc. (76% owned)

Immobilia continues to be affected by weak real estate market conditions in Montreal. Vacancies in the company's 50% owned Southwest One apartment complex in the city of Pointe Claire have doubled since the beginning of the year to just over 10% and are continuing at a high level. As a result of the vacancy level in the Southwest One complex and the lack of any sales of the company's other Montreal properties, the company's cash resources are severely restricted and the present outlook for the company is not encouraging. The carrying value of Talcorp's investment in Immobilia is \$955,000 at June 30, 1977.

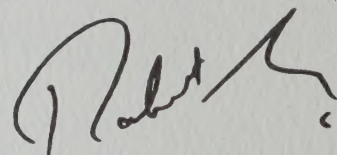
Bad Boy Appliances and Furniture Limited (30% owned)

Bad Boy recently announced that with its consent a receiving order under the Bankruptcy Act has been made against them. Bad Boy lost approximately \$1.8 million in the first half of 1977 and its operations over the past month have continued to be adversely affected by the current low demand for furniture and appliances and by its suppliers' reluctance to maintain its inventories. Bad Boy's operations will be carried on under the supervision of a receiver and trustee until Talcorp and D.B. Diversified, its major shareholders, have an opportunity to consider proposals for the refinancing and reorganization of the company. Until these considerations and discussions with Bad Boy's creditors are completed, it is premature to estimate the effect of this action on the accounts of Talcorp.

Barrymore Carpet Inc. (50% owned)

Barrymore earned \$173,000 in the first six months of 1977. Its operations continue to improve and we are confident that it is now established as a stable and successful enterprise. We are particularly proud of this result because Barrymore was in receivership when we and our partner, D.B. Diversified, acquired it last year after it had experienced a number of years of serious losses.

On behalf of the Board of Directors



Robert Smith
Chairman and President

August 29, 1977